

## **GASB STATEMENT 34 IMPLEMENTATION ISSUES**

### **City of Kettering Infrastructure Strategy – “The Wooster Method”**

#### **Background**

The infrastructure capitalization strategy adopted by the City of Kettering, Ohio (pop. around 60,000) is called the “Wooster Method”, named for the City of Wooster, Ohio. The city has been recording infrastructure in their CAFR for years, and this method of capitalizing infrastructure was instituted by the City of Kettering as follows:

1. No individual infrastructure assets are capitalized under this method.
2. Infrastructure is capitalized by recording the dollars spent (expenditures for infrastructure projects) by category by year. For example, recording a category of infrastructure such as “roads” from 1980 to 1999 would be accomplished by recording the expenditures of the budget category “roads” for those 20 years. The result would be that you would have 20 assets capitalized...”1980 roads”, “1981 roads”, and so on through the current year. Therefore, it would not be necessary to pick out separately every single road that was built from 1980 to 1999 to capitalize those roads.
3. The City of Kettering categories of infrastructure were chosen based on the capital outlay expenditure budget categories that were already there in the system. For instance, Kettering had 4 budget categories (streets, signal systems, drainage systems, and park improvements), therefore they had 4 categories of infrastructure.
4. The amounts to capitalize each year were acquired from the past year’s financial records, particularly the general ledgers from 1980 forward.
5. All costs of the infrastructure projects are included and capitalized together. There is no separation of expenditures for capitalizable maintenance, preservation, additions, improvements, or reconstructions.
6. Under this method, construction-in-progress is not tracked since the assets being recorded are each years’ expenditures, not each individual project. The progress of an on-going project is capitalized as part of the expenditures of a particular year.
7. To capitalize donated streets or roads, it is necessary to obtain engineering estimates of current replacement cost, and then deflate that to the year of donation using FHA tables. That amount would then be the amount to capitalize the donated asset.
8. The infrastructure is then depreciated by category using a composite depreciation rate for each category. Useful lives are acquired from the engineers for each category to determine the rate of depreciation for that category. Depreciation is calculated on all as sets up to the year prior to the year of implementation to get the up-to-date accumulated depreciation for those assets capitalized to meet the retroactive reporting requirements. For the current year and years thereafter, the

depreciation expense is calculated on all assets using the composite depreciation rate for each category of assets to obtain the current year depreciation expense.

9. No assets are removed from the asset records until they are fully depreciated. For instance, the category of "1980 roads" would be removed only when that category was fully depreciated (the net capital asset is zero).
10. The City of Kettering prepared their 1999 CAFR using this method to capitalize infrastructure. The state auditor in Ohio is responsible for auditing their CAFR. However, this particular year it was contracted out to KPMG, but the state auditor and KPMG had no problem with this method used for capitalizing infrastructure.

### **Recommendation**

It is recommended that DOTD explore this alternative and try to determine, given their current systems, whether this method would work for them to capitalize infrastructure.

### **Questions or Potential Problems**

Several questions or potential problems that may result are as follows:

1. One possible problem may be that routine maintenance is required to be expensed under the depreciation approach, while preservation, additions, improvements, and reconstructions are capitalized. Are routine maintenance costs included in the capital outlay expenditures received from DOTD? If so, there may have to be some way to break out maintenance from the expenditures for a particular year. The City of Kettering does not record this noncapitalizable maintenance in their capital outlay fund, therefore for them it was not an issue.
2. Does DOTD have access to the past financial records back to at least 1980 to record the yearly expenditures required for retroactively recording infrastructure using this method?
3. What different expenditure categories does DOTD have set up that would be recorded as separate categories of infrastructure assets?
4. Will some of the years' expenditures for a particular category of infrastructure (which would be considered one infrastructure asset) be such that they would fall under the proposed \$3,000,000 threshold for capitalizing infrastructure?
5. How will DOTD then rely on their engineers to determine the useful lives for each of the categories of infrastructure? These useful lives may be determined based on the makeup of each particular category of infrastructure. These useful lives are very important because they will be the basis for the depreciation calculations.